

Illustrative Reports

Example 1 – Unqualified Opinion Report

Example 2 - Qualified Opinion Report

Example 3 - Adverse Opinion Report

Example 4 - Letter of Comments

INSTRUCTIONS

Report Content. The qualified and adverse opinion reports should only contain findings that meet the description of a material weakness as defined herein using quality control standards in GAS 3.32. A material weakness for peer review reporting purposes is defined as a condition in which the design or operation of the internal control system does not reduce to a relatively low level the risk that (1) applicable auditing standards have been adopted and are being followed, and (2) auditing policies and procedures have been established and are being followed.

Letter of Comments Content. The Letter of Comments should only contain information that meets the description of a reportable condition as defined herein. A reportable condition for peer review purposes represents a significant deficiency in the design or operation of the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards and established auditing policies and procedures.

Illustrative Reports

Example 1 - Unqualified Opinion Report

[DATE]

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit function of [Name of the OIG] in effect for the year ended June 30, 20XX. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the OIG's system of quality control to the extent we considered appropriate. These tests included a review of the audits identified in the enclosure.

In performing our review, we have given consideration to the policy statement on quality control and external reviews, dated [xxx] issued by the PCIE. That statement indicates that an OIG's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of the work and its organizational structure.

In our opinion, the system of quality control for the audit function of [Name of OIG] in effect for the year ended June 30, 20XX, has been designed in accordance with the quality standards established by the PCIE and was being complied with for the year then ended to provide the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Therefore, we are issuing an unqualified opinion on your system of audit quality control.

Used When Letter of Comments Was Issued: *(immediately follows the last sentence in opinion paragraph)*

We have identified in a separate Letter of Comments dated [insert date] other matters that came to our attention which do not affect our overall opinion.

Signature

Enclosure

Example 1

Peer Review Scope and Methodology

Scope and Methodology

Identify the peer review scope and methodology. For example:

We tested compliance with the Office of Inspector General's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the September 30, 20XX, and March 31, 20XX, semiannual reporting periods [identify the time period used to select the audits]. In addition, we reviewed the financial statement audit and monitoring activities covering the FY 20XX financial statements for [OIG office reviewed] that were performed under contract by [CPA firm]. We also reviewed the internal quality control reviews performed by the [reviewed OIG].

OIG Offices Reviewed

Identify locations visited/reviewed. For example:

We visited the Houston, TX; Louisville, KY; and Atlanta, GA offices of the [OIG organization reviewed].

Audit Reports Reviewed

Identify audit reports selected for review. For example:

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
AA9908765C	12/30/20XX	Audit Report on Research on the Hibernating Habits of Polar Bears

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Illustrative Reports

Example 2 – Qualified Opinion Report

[DATE]

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit function of [Name of the OIG] in effect for the year ended June 30, 20XX. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the OIG's system of quality control to the extent we considered appropriate. These tests included a review of the audits identified in Enclosure 1.

In performing our review, we have given consideration to the policy statement on quality control and external reviews, dated [xxx] issued by the PCIE. That statement indicates that an OIG's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of the work and its organizational structure.

As described in Enclosure 2, our review disclosed material weaknesses. A material weakness for peer review reporting purposes is defined as a condition in which the design or operation of the internal control system does not reduce to a relatively low level the risk that (1) applicable auditing standards have been adopted and are being followed, and (2) auditing policies and procedures have been established and are being followed. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system or all instances of noncompliance.

In our opinion, except for the material weaknesses, the system of quality control for the audit function of [Name of OIG] in effect for the year ended June 30, 20XX, has been designed in accordance with the quality standards established by the PCIE and was complied with for the year then ended to provide the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Therefore, we are issuing a qualified opinion on your system of audit quality control. (See Example 1 for inserting a reference to the Letter of Comments.)

Signature

Enclosures

Example 2

Material Weaknesses¹

Finding 1. Systemic Failures in Audit Reports

Systemic failures were found in four of the ten audit reports reviewed. These four audits were issued by two of the four audit divisions reviewed. This condition was caused by the lack of effective policies to provide reasonable assurance of the accuracy of data in draft and final audit reports. The systemic failures found and the impact they had on the reliability of the reports are summarized below:²

1. Report No. xx, "Title" (Date). Our review of this report disclosed at least eight systemic failures that impacted the report. (Provide at least three examples, for example: "The report stated that the actions taken by the program office was in noncompliance with Departmental Regulation No. xx 'Title.' The supporting documentation contained in the working papers show that the program office was in compliance with the regulation as it existed at the time the program office took the action. The working papers show that the issue for which noncompliance was cited did not become effective until six months later. Therefore, the report recommendation was erroneous.")

2-4. Report No. xx, "Title" (Date).

Recommendation - The OIG should develop and implement effective policies for providing reasonable assurance of the accuracy of data in draft and final audit reports.

Views of Responsible Official. Agree. The OIG will immediately develop and implement effective policies for providing reasonable assurance of the accuracy of data in draft and final audit reports.

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¹The findings presented herein are for the purpose of illustrating the reporting format. They are not intended to illustrate complete presentations of findings. Other information, such as, in which or how many offices a condition was found, the cause of a problem, and the potential or actual affect should to be included for a complete presentation of the findings.

²This example is not meant to represent the only manner the material weaknesses should be reported. The reviewer may present them in whatever manner is appropriate to convey the seriousness of the matters identified.

ILLUSTRATIVE REPORTS

Example 3 - Adverse Opinion Report

[DATE]

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit function of [Name of the OIG] in effect for the year ended June 30, 20XX. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the OIG's system of quality control to the extent we considered appropriate. These tests included a review of the audits identified in Enclosure 1.

In performing our review, we have given consideration to the policy statement on quality control and external reviews, dated [xxx] issued by the PCIE. That statement indicates that an OIG's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of the work and its organizational structure.

As discussed in Enclosure 2, our review disclosed material weaknesses. A material weakness for peer review reporting purposes is defined as a condition in which the design or operation of the internal control system does not reduce to a relatively low level the risk that (1) applicable auditing standards have been adopted and are being followed, and (2) auditing policies and procedures have been established and are being followed. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system or all instances of noncompliance.

In our opinion, the system of quality control for the audit function of [Name of OIG] in effect for the year ended June 30, 20XX, has not been designed in accordance with the quality standards established by the PCIE and was not complied with for the year then ended to provide the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Therefore, we are issuing an adverse opinion on your system of audit quality control. (See Example 1 for inserting a reference to the Letter of Comments.)

Signature

Enclosures

Example 3

Material Weaknesses¹

Finding 1. Systemic Failures in Audit Reports

Systemic failures were found in eight of the ten audit reports reviewed. These eight audits were issued by two of the four audit divisions reviewed. This condition was caused by the lack of effective policies to provide reasonable assurance of the accuracy of data in draft and final audit reports. The systemic failures found and the impact they had on the reliability of these eight reports are summarized below:²

1. Report No. xx, "Title" (Date). Our review of this report disclosed at least fifteen systemic failures that impacted the report. (Provide at least three examples, for example: "The report stated that the actions taken by the program office was in noncompliance with Departmental Regulation No. xx 'Title.' The supporting documentation contained in the working papers show that the program office was in compliance with the regulation as it existed at the time the program office took the action. The working papers show that the issue for which noncompliance was cited did not become effective until six months later. Therefore, the report recommendation was erroneous.")

2-8. Report No. xx, "Title" (Date).

Recommendation - The OIG should develop and implement effective policies for providing reasonable assurance of the accuracy of data in draft and final audit reports.

Views of Responsible Official. Agree. The OIG will immediately develop and implement effective policies for providing reasonable assurance of the accuracy of data in draft and final audit reports.

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¹See Footnote 1 in Example 2.

²See Footnote 2 in Example 2.

ILLUSTRATIVE REPORTS

Example 4- Letter of Comments

[DATE]

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit function of [Name of OIG] (the OIG) in effect for the year ended June 30, 20XX, and have issued our report thereon dated August 31, 20XX (, which was qualified as described therein).¹ This letter should be read in conjunction with that report.

Our review was for the purpose of reporting whether the OIG's internal quality control system was designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency (PCIE) and was being complied with for the year reviewed to provide reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. We conducted our review in conformity with standards and guidelines established by the PCIE. Our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

As a result of our review, we identified reportable conditions, which were considered in determining our opinion set forth in our report dated August 31, 20XX. A reportable condition for peer review purposes represents a significant deficiency in the design or operation of the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards and established auditing policies and procedures. We identified the following reportable conditions:

Reportable Conditions

Finding 1. Independence - Required Checklist Not Completed.

For every audit, the OIG's quality control policies and procedures require each member of the audit team to complete a checklist designed to help identify personal and external impairments to independence and document compliance with the Government Auditing Standards independence requirements. These checklists were not completed on three of the ten audits reviewed. Based on discussions with the members of the audit teams involved, we concluded that no actual impairments existed.

Recommendation - The OIG should reemphasize its policy on independence checklists and amend its audit review checklist to include a review item for the completion of the independence checklist.

Views of Responsible Official. Agree.

Finding 2. Audit Performance - Timely Supervisory Review of Work

The OIG's policies and procedures require that supervisors be involved and review work on an on-going basis throughout the audit. On four of ten audits reviewed, the supervisory review of the work occurred at the end of the audit. According to the supervisors involved, this occurred because other ongoing audits, which had higher priority at the time, demanded their attention. When review of the work is delayed until the end of the audit, there is a greater risk that problems with the audit work will not be identified until it is too late to correct.

Recommendation - OIG management should review the pattern of assignments to the supervisors involved and determine if the workload was such that the supervisors could have reasonably been expected to comply with the policy of timely review of audit work for all of the audits under their supervision.

Views of Responsible Official. Agree.

Signature